

**REPORT OF THE AUDIT OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period
April 16, 2011 Through April 16, 2012**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period
April 16, 2011 Through April 16, 2012

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Allen County Sheriff for the period April 16, 2011 through April 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,936,989 for the districts for 2011 taxes, retaining commissions of \$279,736 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,642,650 to the districts for 2011 taxes. Taxes of \$1,730 are due to the districts from the Sheriff and refunds of \$1,269 due to the Sheriff from the taxing districts.

Report Comment:

2011-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations Without Documented Compensating Controls

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Jeff Cooke, Allen County Sheriff
Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the Allen County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012. This tax settlement is the responsibility of the Allen County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Allen County Sheriff's taxes charged, credited, and paid for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Jeff Cooke, Allen County Sheriff
Members of the Allen County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations Without Documented Compensating Controls

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

September 13, 2012

ALLEN COUNTY
JEFF COOKE, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 16, 2011 Through April 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 623,969	\$ 1,962,247	\$ 3,542,125	\$ 770,124
Tangible Personal Property	63,575	155,611	274,838	210,137
Fire Protection	3,768			
Franchise Taxes	63,714	161,447	294,401	
Additional Billings	2,653	223	422	203
Inventory In Transit		117,011		
Oil Property Taxes	1,439	4,051	8,160	1,772
Limestone, Sand and Gravel Property Taxes (LSG)	305	861	1,734	376
Penalties	3,642	12,095	20,500	4,499
Adjusted to Sheriff's Receipt	529	1,491	3,005	652
Gross Chargeable to Sheriff	763,594	2,415,037	4,145,185	987,763
<u>Credits</u>				
Exonerations	2,696	8,135	15,296	3,333
Discounts	10,443	33,803	57,208	15,277
Delinquents:				
Real Estate	19,806	65,811	111,958	24,732
Tangible Personal Property	2,658	221	390	239
Oil Taxes	17	47	95	21
Franchise Taxes	310	783	1,311	
Total Credits	35,930	108,800	186,258	43,602
Taxes Collected	727,664	2,306,237	3,958,927	944,161
Less: Commissions *	30,926	89,915	118,768	40,127
Taxes Due	696,738	2,216,322	3,840,159	904,034
Taxes Paid	695,117	2,213,240	3,831,299	902,994
Refunds	1,315	3,751	7,436	1,640
Due Districts (Refunds Due Sheriff) as of Completion of Audit	\$ 306	\$ (669)	\$ 1,424	\$ (600)

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

ALLEN COUNTY
 JEFF COOKE, SHERIFF
 SHERIFF'S SETTLEMENT - 2011 TAXES
 For The Period April 16, 2011 Through April 16, 2012
 (Continued)

* Commissions:

4.25% on	\$	3,045,322
4% on	\$	740,493
3% on	\$	3,958,927
1% on	\$	192,247

** Special Taxing Districts:

Library District	\$	(271)
Health District		(63)
Extension Service District		(116)
Ambulance District		(167)
Volunteer Fire Dues		<u>(52)</u>
Refunds Due Sheriff	\$	<u><u>(669)</u></u>

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Allen County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2012
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Allen County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2011 through April 16, 2012.

B. Oil and Limestone Taxes

The oil and limestone property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 15, 2011 through May 16, 2012.

C. Franchise Taxes

The franchise assessments were levied by the Kentucky Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. The collection period for these assessments was April 16, 2011 through April 16, 2012.

Note 4. Interest Income

The Allen County Sheriff earned \$961 as interest income on 2011 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of April 16, 2012, the Sheriff was to collect \$21 in interest from the school district and owed \$27 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Allen County Sheriff collected \$34,213 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of April 16, 2012, the Sheriff was to collect \$110 in 10% add-on fees from his fee account.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2012
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff will deposit unrefundable duplicate payments and unexplained receipts in a separate bank account. The Sheriff will escrow \$228 for 2011 taxes. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Jeff Cooke, Allen County Sheriff
Members of the Allen County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Allen County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, and have issued our report thereon dated September 13, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Allen County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

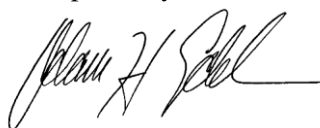
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Allen County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Allen County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Allen County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

September 13, 2012

COMMENT AND RECOMMENDATION

ALLEN COUNTY
JEFF COOKE, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2011 Through April 16, 2012

INTERNAL CONTROL - MATERIAL WEAKNESS

2011-01 The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties Over Receipts And Reconciliations Without Documented Compensating Controls

During our review of internal controls, we noted the Sheriff's office has a lack of segregation of duties over receipts and reconciliations. The Sheriff's bookkeeper collects payments from customers, prepares deposits, prepares daily collection printouts, and posts to the receipts ledger. In addition, the Sheriff's bookkeeper prepares monthly tax reports, reconciles monthly tax reports to receipts and disbursements, and prepares the monthly bank reconciliations. The Sheriff or another individual did not document adequate oversight over these activities.

Segregation of duties over collecting taxes, preparing daily deposits, preparing monthly reports, and preparing reconciliations is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Sheriff should separate the duties of collecting taxes, preparing daily deposits, preparing reconciliations, and preparing financial reports. If these duties cannot be segregated due to a limited staff or a limited budget, then strong oversight should be provided to the employee responsible for these duties. These compensating controls should be documented.

Sheriff's Response: The ACSO insures that documented control will be initiated.